

Message Text

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C O N F I D E N T I A L STATE 275181

FOR ASSISTANT SECRETARY ENDERS

FOLLOWING REPEAT EC BRUSSELS 10375 ACTION SECSTATE INFO

ALL EC CAPITALS JIDDA KUWAIT 19 NOV

QUOTE

C O N F I D E N T I A L EC BRUSSELS 10375

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: EC COMMON BORROWING FACILITY

REFS: A. KUWAIT 4709

B. EC BRUSSELS 9574

C. EC BRUSSELS 9120

1. SUMMARY: EC COMMISSION OFFICIAL ARE DISAPPOINTED OVER THE RESULTS OF THEIR NEGOTIATIONS WITH SAUDI AND KUWAIT OFFICIALS TO RAISE FUNDS FOR THE EC COMMON BORROWING FACILITY. SAUDI ARABIA OFFERED A \$300 MILLION LOAN AT NON-PREFERENTIAL INTEREST RATES; KUWAIT IS INCLINED TOWARD A \$100-150 MILLION LOAN BUT COULD MAKE NO FIRM COMMITMENT. THE EC COMMISSION HAS NOW ASKED THE MEMBER STATES IF THEY WANT TO GO AHEAD WITH THE BORROWING OPERATION. END SUMMARY.

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2. EC COMMISSION OFFICIALS HAVE EXPRESSED DISAPPOINTMENT OVER THEIR EFFORTS TO BORROW FROM SAUDI ARABIA AND KUWAIT TO FINANCE THE EC COMMON BORROWING FACILITY (SEE REF B). SAUDI ARABIA HAS AGREED TO LOAN \$300 MILLION TO THE EC FACILITY FOR A FIVE-YEAR PERIOD AT THE COST OF BORROWING ON THE EUROBOND MARKET FOR A TRIPLE-A SECURITY (I.E., ABOUT A 9-9.25 PERCENT INTEREST RATE). THE COMMISSION HAD HOPED TO OBTAIN AT LEAST \$500 MILLION AT A PREFERENTIAL INTEREST RATE. HOWEVER, OUR SOURCES BELIEVE THAT THE SAUDIS MIGHT BE PERSUADED TO INCREASE THE PROPOSED BORROWING BY \$100-200 MILLION, SHOULD THE EC DEFINITELY DECIDE TO GO AHEAD. THEY ADD THAT THE BORROWING WOULD BE A STRAIGHT BUSINESS TRANSACTION; THE SAUDIS DID NOT MENTION ANY POSSIBLE POLITICAL CONDITIONS.

3. AS INDICAED IM REF A, KUWAITI AUTHORITIES ALSO EVINCED INTEREST IN MAKING A LOAN, BUT NO SPECIFIC FIGURE OR TERMS WERE AGREED UPON. COMMISSION OFFICIALS SAID THAT KUWAIT PREFERRED TO WAIT UNTIL ITS CURRENT NEGOTIATIONS WITH BP AND GULF ARE SETTLED. AT THAT TIME KUWAIT WOULD HAVE A BETTER IDEA OF THE AMOUNT IT COULD LOAN. KUWAITI OFFICIALS, HOWEVER, TALKED IN TERMS OF A LOAN OF \$100-150 MILLION AT ABOUT THE SAME TERMS AL SAUDI ARABIA PROPOSED.

4. THE EC COMMISSION ASKED THE EC FINANCE COUNCIL ON NOVEMBER 17 IF IT WANTED TO GO AHEAD WITH A BORROWING OPERATION OF \$300-500 MILLION. THE IRISH REPRESENTATIVE INDPCATED THAT HE WOULD LIKE FOR THE COUNCIL TO REACH A DECISION NO LATER THAN THE NEXT COUNCIL MEETING ON DECEMBER 15. THE COMMISSION PLANS TO CONTACT ITALIAN AND IRISH OFFICIALS TO DETERMINE IF THEY CONTINUE TO BE INTERESTED IN RECEIVING A LOAN FROM THE FACILITY. SHOULD THE MEMBER STATES WANT TO GO AHEAD, COMMISSION OFFICIALS HOPE TO CONCLUDE THE BORROWING OPERATION WHEN SAUDI AND KUWAITI OFFICIALS ARE IN PARIS FOR THE DECEMBER MEETING OF THE COMMITTEE ON INTERNATIONAL ECONOMIC COOPERATION.

5. COMMISSION VICE PRESIDENT HAFERKAMP TOLD THE
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FINANCE COUNCIL ON NOVEMBER 17 THAT IF IT HAD ACTED FASTER THE EC COULD HAVE BORROWED UP TO \$1.3 BILLION. HOWEVER, AVAILABLE FUNDS OF OPEC COUNTRIES ARE NOW GREATLY REDUCED.

6. COMMENT: SEVERAL PERM DEL SOURCES HAVE SAID THEY SEE NO REASON WHY THE EC SHOULD NOT GO AHEAD WITH A RELATIVELY SMALL INITIAL BORROWING. IT REMAINS TO BE SEEN, HOWEVER,

WHETHER BOTH THE COUNCIL AND THE POTENTIAL
RECIPIENTS BELIEVE IT IS NOW WORTHWILE
TO PUT THE NEW FACILITY INTO OPERATION. COMMISSION
OFFICIALS SAY THAT IT WOULD BE A SETBACK FOR THE
COMMUNITY TO FAIL TO USE THE FACILITY BECAUSE IT
REPRESENTS AN IMPORTANT COMMUNITY INITIATIVE TO ASSIST
FINANCIALLY HARDSHIPED MEMBER STATES. MORRIS UNQUOTE
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